ENVIRONMENTAL WATER ACCOUNT

FINANCE PLAN

Introduction

The Finance Plan provides a preliminary identification of various types of costs, proposed cost-sharing, annual cost estimates, and a strategy for funding the Environmental Water Account. The costs of the EWA include: asset acquisitions, conveyance, power, and storage of EWA assets, planning, and support services. The Plan recognizes the general EWA operating principle of no net, increased incremental costs upon the projects with proposed cost sharing to include a combination of federal, and state funds. Funding will be needed over the initial four year term of the program and may need to extend several years as the various parts of the CALFED Preferred Program Alternative are selected, implemented, operated, and maintained. The Finance Plan includes a strategy to address both short term and long term funding needs including the potentially large varying annual costs for implementing the EWA.

The Finance Plan for implementing the EWA is a critical component of the EWA Program in order to achieve an operational EWA necessary to provide the Endangered Species Act assurances to the Central Valley Project (CVP) and State Water Project (SWP) operations.

This document is not intended to be a complete, highly detailed budget plan. The specifics for estimating and financing the components of each cost element have not been finalized. However, this plan provides background, description of program costs, description of proposed funding sources, and funding strategy necessary to prepare a program budget for the 4-year term of the EWA.

Background

The EWA is a cooperative management program whose purpose is to provide protection to the fish of the Bay–Delta estuary through environmentally beneficial changes in the operations of the SWP and federal CVP, at no uncompensated water cost to the projects' water users. The EWA is intended to provide sufficient water, combined with the Ecosystem Restoration Program and the regulatory baseline, to address CALFED's fishery protection and restoration/recovery needs. This approach to fish protection requires the acquisition of alternative sources of water supply, called the "EWA assets," which will be used to augment streamflows, Delta outflows, modify exports to provide fishery benefits, and replace the regular project water supply

interrupted by the changes to project operations. The replacement water will compensate for reductions in deliveries relative to existing facilities, project operations and the regulatory baseline as defined in the CALFED Record of Decision (ROD) that result from EWA actions.

The EWA shall impose no net, increased incremental costs upon the projects. The Management Agencies and Project Agencies shall develop a financing plan to cover all costs of the EWA from non-contractor funding sources. The plan may include the establishment of a revolving account with annual deposits to pay for fluctuating EWA costs. The plan shall address increased costs for project operations, power, and ancillary costs, of both the SWP and CVP resulting from implementation of the EWA; crediting the EWA as appropriate for reduced operating costs; crediting the EWA for certain power benefits; and revenues realized from the sale of EWA assets. The Management Agencies and Project Agencies shall develop and recommend this plan, including any necessary legislation, to the CALFED Policy Group within 90 days following the adoption of the ROD.

Prior to an EWA, it would be left to the projects to find the water, provide the source shifting, and provide the funding to protect the San Luis low point or otherwise recover lost water supplies. In the past, project actions such as source shifting and water purchases were limited due to the lack of funds, or ability of fishery agencies to provide assurances of protection for water supplies.

Requiring alternative funding to pay for the EWA program encourages more careful review of proposed actions (including water and power needs) in relation to the benefits they receive. Such a process also encourages examination of a fuller range of alternatives.

EWA Program Costs

Implementation of the EWA at no uncompensated water cost to the projects' water users also requires no net, increased incremental costs to the projects. Therefore, all costs of implementing the EWA must be provided from non-contractor funding sources.

Projected First-Year[1] costs

During this first year, the start-up costs for the EWA are projected to be primarily for water acquisitions. One major cost for the first year, which is not expected in subsequent years, is the one-time acquisition of 200 TAF South of the Delta. However, storage space south of the Delta will be needed in all subsequent years for use by the EWA. Other costs include:

[1] State Fiscal Year is the basis for all cost projections in this plan.

- Conveyance and storage for EWA water
- Incremental cost/credit of transporting EWA water through project facilities
- Staff costs for planning and implementation of acquiring assets including preparation of environmental documentation

State and Federal appropriations envisioned for implementation of the EWA did not materialize for this first year of the EWA; however, both State and federal agencies are continuing to provide resources to implement the EWA. Although costs for preliminary development of the EWA prior to the CALFED ROD will be absorbed within each agencies existing budgets, the costs incurred for those components listed in Table 1, particularly for the project agencies, are to be reimbursed from non-contractor funding sources. The need for non-contractor funding sources is necessary to meet the general EWA operating principle of no net, increased incremental costs upon the projects.

Table 1
EWA Costs/Benefits

Annual Acquired Surface Water Assets
North of the Delta water purchases of at least 35 TAF South of the Delta water purchases of 150 TAF Source Shifting agreements, South of Delta of 100 TAF or more
Annual Acquired Groundwater/Storage Assets
Equivalent to 200 TAF of South-of-Delta storage
Incremental Project Operating Costs/Credits
Net increased cost of conveying, pumping and storing non-project water for the EWA Net incremental credit of any increased generation derived from the release of this non-project water through project generation facilities Net incremental power cost/credit from shifting the timing of pumping/generation with project water due to EWA operations
Planning and Implementation Expenses
Salaries and benefits of employees implementing the EWA Planning costs, including preparing environmental documents Analyzing EWA benefits/impacts and conducting sensitivity analyses

The projected program costs for both the first year and following years are shown in Table 2.

Table 2

Environmental Water Account Projected Program Costs	First Year Costs $ in Millions			Average Annual Costs $ in Millions		
	State FY2000 - 2001			State FY2001 - 2004		
EWA Component	State	Federal [4/]	Total	State	Federal [5/]	Total
Acquired Surface Water Assets [1/] Based on current proposals to meet the EWA Operating Principles goals for 35 TAF NOD, 150 TAF SOD, and 100 TAF Source Shift.	36.0	10.0	46.0	12.1	33.9	46.0
Acquired Groundwater Assets Based on current proposals to meet EWA Operating Principles goal for one-time stored water equivalent of 200 TAF from south of Delta sources. Subsequent year acquisition costs are for storage capacity only.	29.5	0.0	29.5	14.7	14.7	29.5
Incremental Project Operating Costs/Benefits [2/] Estimated Average Annual incremental power costs associated with EWA operations. Estimated annual use of facilities and aqueduct conveyance costs associated with storage and transporting EWA assets.	6.0	4.0	10.0	6.0	4.0	10.0
Planning and Implementation Expenses [3/] Estimated staff salaries and wages, benefits and preparation of Environmental Documentation.	2.8	2.3	5.1	2.8	2.3	5.1
TOTAL ANNUAL EWA COSTS	**74.3**	**16.3**	**90.6**	**35.6**	**54.9**	**90.6**

1/ State to pay remaining acquisition costs in State FY2000-2001, thereafter costs are assumed to be shared Between State and Federal governments to achieve 50/50 cost share over the 4-year term of the EWA program. Of the FY00-01 Total $46 million, $10 million used to acquire 72 TAF currently in San Luis. Zero appropriations available under Bay-Delta Act in FY 2001. Of the remaining FY00-01 $36 million State share, $27.3 million to be paid during the State FY 2000-2001 and remaining $8.7 million to be encumbered, for payment through Fall 2001 as EWA purchases are delivered by sellers.
Note that certain costs of specific water purchases (application process, legal and engineering costs) would be paid for by sellers in the transaction.

2/ Includes estimated State costs for incremental storage and conveyance of $5 million annually.

3/ Includes estimated costs for NMFS, and USFWS of $0.5 million annually.

4/ Zero appropriations available under Bay-Delta Act in FY 2001.

5/ Zero appropriations available under Bay-Delta Act in FY 2001. Funding proposals submitted for FY 2002 and beyond.
Average Annual Federal costs are assumed to be greater than State in subsequent years to achieve 50-50 cost share over 4-year term of EWA Program.

Estimated Annual Costs

Annual costs for the EWA in following years may increase beyond those of the initial year start-up costs. However, costs for subsequent years are estimated from the projected first year costs. The water market response to increased demands from the Governor's Drought Panel, CVPIA Level 4 acquisitions, CALFED Environmental Water Project, and independent water transfers is unknown. In addition, it is unknown what effect, if any, may arise as the acquisition process moves toward an open public process that may employ other agencies or third parties as described in the EWA operating principles.

Funding Strategy

Providing a reliable funding source is necessary to ensure sufficient resources are available for continuation of the EWA Program and related assurances anticipated in the CALFED Record of Decision.

Proposed funding for EWA program costs is to include a combination of State, and Federal funds to achieve a 50-50 cost sharing between the State and Federal governments over the 4-year term of the program. The use of non-contractor funding sources is a measure to achieve the general EWA operating principle of no net, increased incremental costs upon the projects. Project operating costs (Operation and Maintenance) on both State and Federal projects are generally funded 100% by the beneficiaries or local interests. The SWP O&M costs are repaid by the SWP contractors and USBR projects require 100% non-federal funding for O&M. The incremental increase in these costs along with the costs for water purchases, and planning and implementation costs for the Environmental Water Account, need to be provided from non-contractor funding sources to ensure no net increase costs to the projects. Both State and Federal funds are needed to implement the EWA as a priority item of the CALFED Preferred Program Alternative.

Funding for the State share of the EWA program costs is proposed as direct State appropriations from General Funds. Reliance on annual appropriations is difficult for program elements requiring multi-year funding, such as the EWA. While State appropriations can provide an immediate source of funding, it is subject to competition with other State program elements. In addition, appropriations to meet the projected State's share of EWA costs in FY00-01 and beyond will require annual legislative review, support, and action over the 4-year term of the EWA program.

Funding for the Federal share of the EWA program costs is similarly proposed as through Federal appropriations. Funding through appropriations at the Federal level has advantages and disadvantages similar to appropriations at the State level; however, federal authorizations may face a higher level of competition. Confronted with financial demands from all sectors of the federal budget and with competing nationwide demands, there would be no guarantees that seeking Federal non-reimbursable

appropriations to cover an equitable share of EWA costs would be provided on a continuing basis.

CALFED could use the funding sources described in this section or consider other mechanisms, such as bonds or user fees, in lieu of or in addition to, those presented in this plan.

While the long-term plan is to fund the EWA as described above, State and Federal appropriations were not provided for the EWA this first year. Therefore, the current plan is to fund additional first year EWA water purchases with State funding available through Proposition 204. These funds would be a short-term loan to allow the EWA to continue to proceed with water acquisitions. These funds would then be reimbursed later from proposed State appropriations.

A revolving account to address fluctuating costs of an EWA program, take in monies collected from sales of EWA assets, pay for the cost of EWA doing business, and pay/take in monies associated with any incremental costs/benefits to the projects can be used in conjunction with State and Federal appropriations. While establishment of a revolving account under either the State or Federal system has several obstacles, it provides a valuable tool to cover fluctuating expenses in succeeding years, bridge State and Federal fiscal years, and to address concerns for delays in funding appropriations.

Considering the EWA is initially only a 4-year program, a thorough review of the EWA financial obligations may be needed prior to formalizing some form of revolving account. In addition, advantages and disadvantages in establishing a State and/or Federal revolving account(s) are described below:

Advantages	Disadvantages
▪ Flexibility to address fluctuating EWA costs for the long-term ▪ Separate State and Federal accounts can increase flexibility in the contracting process ▪ Potential to provide necessary funding as part of a contingency plan in the event annual appropriations are not realized ▪ Provides an opportunity to balance fluctuating annual costs	▪ May require legislation to implement ▪ The time-frame to implement may extend beyond the initial 4-year term of the EWA program ▪ Procedures for separating State and Federal funding requirements will need to be established (single or separate accounts need to established integrated use of State and Federal funds)